

CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Community Financial Corporation

Point of Contact:	R Jerry Giles	RSSD: (For Bank Holding Companies)	N/A
UST Sequence Number:	194	Docket Number: (For Thrift Holding Companies)	H2750
CPP/CDCI Funds Received:	12,643,000	FDIC Certificate Number: (For Depository Institutions)	30417
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	N/A
Date Funded (first funding):	December 19, 2008	City:	Staunton
Date Repaid ¹ :	N/A	State:	Virginia

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

☒ **Increase lending or reduce lending less than otherwise would have occurred.**

Our lending balances decreased \$17.0 million for the twelve months ended December 31, 2010. Our lending has decreased due to regulatory concerns in regard to loan concentrations and reduced economic activity.

☐ **To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).**

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☐ Increase securities purchased (ABS, MBS, etc.).

☐ Make other investments.

☒ Increase reserves for non-performing assets.

The allowance for loan losses increased \$2.3 million from December 31, 2009 to December 31, 2010.

☒ Reduce borrowings.

At the time we received funds from the CPP we had a holding company loan of \$3.0 million. In accordance with the agreement with our primary regulator we repaid \$2.0 million initially from the CPP funds and have since repaid the remaining \$1.0 million.

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☒ **Increase charge-offs.**

The balance in our REO has increased \$5.8 million for the twelve months ended December 31, 2010.

☐ **Purchase another financial institution or purchase assets from another financial institution.**

☐ **Held as non-leveraged increase to total capital.**

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What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

We have been to avoid significant decreases in our loan portfolio due to the infusion of CPP/CDCI funds. After recording an Other Than Temporary Impairment charge in September, 2008 on its Fannie Mae and Freddie Mac preferred stock the Bank became less than "well capitalized". After receiving the CPP funds in December, 2008 the Bank returned to a "well capitalized" status and avoided a more significant increase in FDIC premiums.

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What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

We had discussions with our regulators during the period when we were less than well capitalized in regard to how we would return to a well capitalized status. One key strategy in returning to a well capitalized status was to limit or decrease the bank's loan portfolio . After receiving the CPP funds we improved our safety and soundness standing and we were able to increase our lending and meet the credit needs of the communities we serve.

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Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.

N/A